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Today's California: Opportunities and Challenges

"From the gold rush to the silver screen to the silicon chip, Californians have been inventing the future ever since the early days of our statehood... in our schools, in studios, in high-tech firms all across this State—California continues to invent the future. My friends, our best days still lie ahead."

Governor Gray Davis,
Admissions Day Rally,
September 8, 2000

Six Years of Strong Economic Growth

California has enjoyed six years of strong economic growth. We saw an increase of more than 2 million jobs in that time, a dramatic recovery from the recession of the early 1990s. In 2000, exports produced by California firms reached record levels—\$129.7 billion, up 21% from a year earlier—and new venture capital received by California firms—\$40 billion—was nearly double the previous record in 1999.

The strong economy had a positive impact on the standard of living of most residents. In February 2001, California's unemployment rate dropped to 4.5%—the lowest level since the late 1960s. Following four straight years of above average gains in total personal income, per capita income in California reached \$32,275 in 2000—above the national average and ranking the State 8th nationwide—the same ranking as in 1990.

Wages for the lowest paid 10% of California workers rose by more than 10% above the rate of inflation over the last five years. The poverty rate fell to 13.8% in 1999—down from 18.2% during the early 1990s recession. The strong economy allowed several increases in the minimum wage, enabled public spending on education to rise significantly, and supported increases in critical human services, including health care coverage for poor children and services to improve the quality of life for the elderly and persons with disabilities.

However, in spite of the economic prosperity enjoyed by Californians and overall improvements in the standard of living this past decade, many residents have not shared in this prosperity, and the disparities between the rich and the poor are widening. Many working families are struggling just to maintain their standard of living. The disparities are reflected in differences between communities in regions like the Silicon Valley and the San Joaquin Valley.

The state's future economic health and quality of life depends on the vitality of its communities and opportunities for all Californians. In 2001, we saw a softening of the U.S. and California economies, due in part to market



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WATER RESOURCES

corrections in the technology sector, a key driver of the California economy. While our overall economy will experience periodic cycles of growth and slowdown, the Commission's investment strategy is based on the belief that California has strong long-term economic prospects and will continue to prosper if we continue to invest. Moreover, communities "at risk" economically represent emerging market investment opportunities and will bring multiple benefits to the State through sound investments.

Substantial Opportunities Ahead for California's Economy

California credits its entrepreneurs and workers for recent economic gains. Their ingenuity and productivity have put the State in leadership positions in most of the high wage, high growth industries in the world.

The Commission believes that California firms can and will maintain these leadership positions in high growth industries, *if we invest wisely in meeting our infrastructure challenges*. Continued economic leadership will allow Californians to see rising living standards and provide our best chance to further reduce poverty and stimulate economic opportunity for all residents.

While future growth projections are inherently uncertain, economists are unanimous that the state should expect substantial continued economic growth. The California Department of Finance projects that over the next 20 years, we should expect 6 million more jobs and 12 million more residents, who will need at least 4 million new homes. The projected levels of growth are large because 1) the U.S. is still growing and 2) California has the competitive strengths to capture an above average share of new jobs in fast growing sectors like high tech manufacturing, software and foreign trade.

It is likely that California will record lower job and income increases in 2001 than in recent years. However, the Commission does NOT believe that this is a reason to pull back on investing for the future. Any current slowdown will be brief and is not an indicator of inherent long-term weakness in the state's key economic sectors. Delay will only put us further behind in improving our own quality of life and future prosperity, and impede our long-term economic advantage.

"California has the largest and most diverse economy in the nation and remains the industrial powerhouse of the West, providing 13% of the U.S. Gross Domestic Product. California's \$1.35 trillion economy currently ranks sixth among the nations of the world, just ahead of Italy and China."

Lon Hatamiya
Secretary, California Technology,
Trade and Commerce Agency



Port of San Diego, California

PHOTO CREDIT: J. SPENCER / CALIFORNIA
DEPARTMENT OF TRANSPORTATION

Our Infrastructure Deficit

"We owe our modern prosperity in large part to the legacy of the last generation of Californians—the schools, highways, and institutions of higher learning that they paid to build... The Business Roundtable is issuing a challenge to a New California to make a similar commitment to the future."

"Building a Legacy for the Next Generation," 1998
The California Business Roundtable

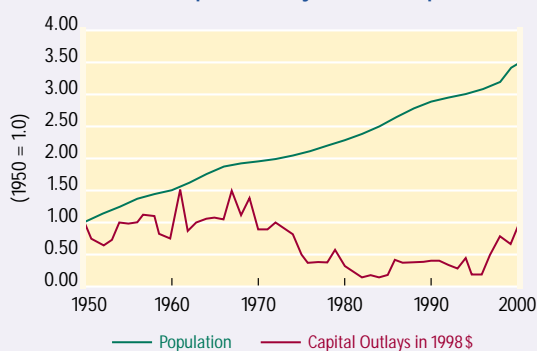
A number of State and private organizations have estimated infrastructure needs in recent years. While estimates vary, the California State Treasurer has placed the level of magnitude at \$82 billion over the next decade. The California Business Roundtable has estimated it at more than \$90 billion, with State and local revenues able to meet only about half of these needs. Whatever the actual numbers, all parties agree that California faces a significant current deficit in these critical investment areas, compounded by the need to prepare for the next 12 million Californians.

The accompanying graph depicts the gap between past levels of infrastructure spending by the State and its growing population, but also the positive upswing of the last two years.

Some California Facts:

- California's home ownership rate is 49th in the nation.
- Each year, California produces 50,000–70,000 fewer homes than needed.
- In 1999, California motorists spent more than 800,000 hours on congested roads each day, at a daily cost of \$8 million.
- A majority of our school facilities is more than 25 years old.
- We need to build seven new classrooms per day for five years to keep pace with expected growth.
- Southern California studies predict that passenger demand in 2020 will exceed current airport capacity by more than 50%.
- Brownfields, which are abandoned and contaminated land and facilities, are estimated to constitute 5–10% of California's urban real estate (260,000 to 520,000 acres).
- During the past 100 years, more than 90% of California wetlands have been lost, with negative impacts on water quality, flood protection, and habitat.
- In 1999, there were 694 beach closure days and 4,186 beach warning days, due to bacterial contamination.
- It is estimated that earthquake retrofitting will cost California's 473 hospitals \$5–10 billion over 10 years.
- Almost 50% of the in-state electrical generation capacity is from facilities that are more than 30 years old.
- Nearly three-quarters of the State's courthouses were built prior to 1980 and over half were built before 1970.

Real State Capital Outlays Versus Population



Source: California Department of Finance

Long-standing underinvestment has led to increased traffic congestion, a decline in housing affordability, increased airport delays, and the never-ending challenge of providing enough classrooms for the state's K-12 and higher education students. Each day Californians experience the consequences of this underinvestment.

While the state has had some notable infrastructure successes, such as improved air quality and open space protection, recent polls indicate that most residents feel our quality of life is declining despite the economic gains. Notwithstanding the major new investments that have been made over the past two years, the state continues to face a serious long-term challenge that we must address boldly and on a sustained basis.

To solve the infrastructure problems of today and prepare for California's future, our infrastructure investments need to:

1. FIX IT FIRST. California faces substantial public investment demands to repair and replace many of the state's existing public facilities. Physical elements of infrastructure need consistent ongoing maintenance throughout their lifecycle to maximize use and ensure timely replacement.

2. SEIZE OPPORTUNITIES OFFERED BY INNOVATION AND TECHNOLOGY. As times change, technology improves and new approaches emerge. Computer technologies enable increased automation and productivity. New materials, products and building techniques increase the longevity of physical structures and decrease operating costs. Modifications of existing structures must accommodate innovative new standards, such as smaller class sizes and disability access. We need to invest in these opportunities to capture the benefits of increased efficiency and improved service delivery.

3. EXPAND EXISTING CAPACITY. Though it is clear that California will need to invest in building new infrastructure to meet the needs of our growing economy and population, it is also possible to increase our infrastructure capacity without always having to build more facilities. For example, e-Government opportunities provide new service options with reduced physical requirements.

The Commission was charged by the Governor to develop an investment framework for our future.

The Commission is committed, as is the Governor, to compensating for past deficits and preparing for future growth so that Californians can enjoy a better today and leave to their children a better tomorrow.



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